



Cigarette & Tobacco Taxes

Master Settlement Funds

Tobacco Trust Interest



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www.leg.mt.gov/css/fiscal

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Cigarette Tax

Revenue Description: The cigarette tax is an excise tax imposed on all cigarettes sold or possessed in Montana. The tax is imposed on the retail consumer, but is collected by wholesalers or retailers through the use of tax insignia. The insignias are purchased from the state and affixed to each package of cigarettes. The tax does not apply to quota cigarettes sold on an Indian reservation. In practice, the tax is levied on all cigarettes and the wholesaler receives a refund for the amount within the quota that has been sold within the boundaries of an Indian reservation. Each tribe’s quota is equal to 150.0 percent of Montana’s per capita general fund cigarette tax revenue multiplied by the enrolled tribal member population, or any other amount agreed to in a state-tribal agreement. The state has agreements with five tribes in Montana.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 increasing the tax on cigarettes to \$0.70 per 20-cigarette package, a 289 percent increase from the previous \$0.18 tax. Shortly thereafter, the electorate approved I-149 that raised the tax on packs of 20 cigarettes by \$1.00 to \$1.70, beginning January 1, 2005, an increase of 143 percent. Both SB 407 and I-149 changed the distributor percentage discounts, but the amounts that distributors are allowed to retain for administration of the tax stayed relatively constant. SB 407 changed the distribution of the tax revenues to increase the amount deposited into the state general fund. I-149 increased tax revenues for veterans’ nursing home operation and maintenance and provided revenue to a new state special revenue fund for health and Medicaid initiatives.

Statutory Reference:

- Tax Rate (MCA) – 16-11-111
- Tax Distribution (MCA) – 16-11-119
- Date Due – within 30 days after purchase of the insignia (16-11-117)

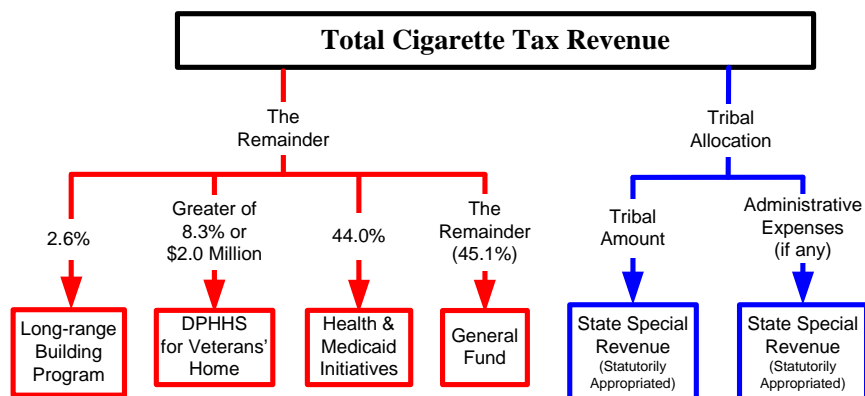
Applicable Tax Rate(s):

- Beginning January 2005, the excise tax on cigarettes is \$1.70 per package of 20 cigarettes, prorated for packages that differ from 20 cigarettes.
- Wholesalers pay a license fee of \$50.00 and each retailer pays a license fee of \$5.00. License fees are renewable each year and are non-transferable. Revenue from these fees is shown in “All Other General Fund Revenue”.

Distribution: All wholesaler and retailer license fees are deposited in the general fund. After deductions for tribal refunds, the cigarette tax revenue is distributed:

- The greater of 8.3% or \$2.0 million to DPHHS for veterans’ nursing home operation and maintenance
- 2.6% to the long-range building program
- 44.0% for health and Medicaid initiatives
- The remainder (45.1%) to the general fund

Distribution Chart



Tobacco Tax

Revenue Description: The tobacco tax is an excise tax on tobacco products sold in Montana. Cigarettes are not subject to the tobacco tax. The tax is considered a direct tax on retail consumers, but is collected by the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to the tax.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 that doubled the tax on all tobacco products other than cigarettes and moist snuff from 12.5 percent to 25.0 percent of the wholesale price. Furthermore, moist snuff is now taxed individually, increasing the rate from the equivalent of \$0.28 an ounce to \$0.35 an ounce. Beginning January 1, 2005, the electorate approved I-149 that raised the tax on other tobacco products to 50 percent of the wholesale price and moist snuff to \$0.85 per ounce. Wholesalers were allowed a discount of 2.5 percent, until January 1, 2005 then the discount was reduced to 1.5 percent, to cover collection and administrative expenses. The wholesaler is entitled to a refund for tobacco products that remain unsold. I-149 adjusted distributions to allow half of the tax revenues to flow into the state general fund and half to flow into a new state special revenue fund for health and Medicaid initiatives.

The state has tobacco revenue sharing agreements with five tribes in Montana. In the agreements with the Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow tribes, the state collects the tax imposed by the tribes and distributes the revenue to the tribes on a quarterly basis. Indian consumers of tobacco on other reservations are exempt from paying the tobacco tax.

Statutory Reference:

Tax Rate (MCA) – 16-11-111(7)

Tax Distribution (MCA) – 16-11-114(2), 16-11-119(3)

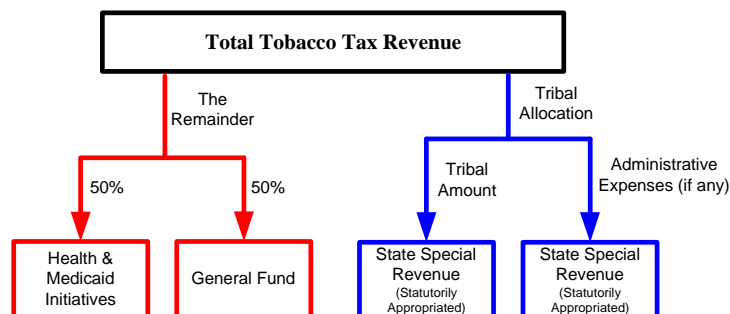
Applicable Tax Rate(s):

- Tobacco products - 50.0 percent of the wholesale price
- Moist snuff - \$0.85 per ounce

Distribution; After deduction for tribal refunds, the tobacco tax revenue is distributed:

- 50% to a state special revenue fund to be used of health and Medicaid initiatives
- 50% to the general fund

Distribution Chart:



Tobacco Settlement

Revenue Description: Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies and 47 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities).

Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Two were received in fiscal 2000 and one each year was received in fiscal years 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from fiscal years 2008 through 2017). The MSA places no restrictions on how the settling parties spend the money.

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. These may include inflation, sales volume changes, non-participating manufacturers (NPM) adjustment for the loss of market shares, operating income of the original four tobacco companies, number and operating income of subsequent participating manufactures, number of states reaching state specific finality, settlements reached by the four states not party to the agreement (Florida, Texas, Minnesota, and Mississippi), litigation offsets, disputed payments, and federal tobacco legislation offsets among others.

The reduction for the NPM adjustment was first included in the revenue estimates beginning fiscal 2006. Amounts paid by manufacturers who participate in the MSA may decrease if they have lost market shares and it is proven that a significant portion of the loss (to companies not participating in the MSA) is due to the disadvantages caused by the MSA. An economics firm must determine if this is the case. The adjustment does not apply if a state has enacted "model statutes" and enforced them. Although it has not yet been determined if all these conditions have been met, it is expected that participating manufactures will withhold a portion of their payments in disputed escrow accounts until the matter is resolved, thus reducing payments to the settling entities.

Statutory Reference:

Tax Rate – NA

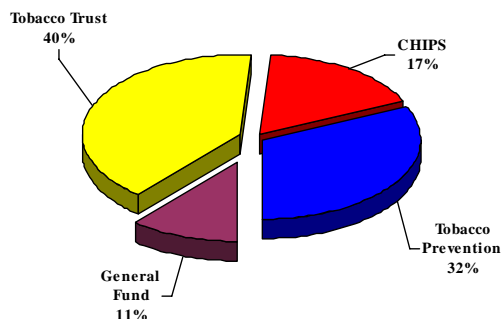
Tax Distribution (MCA) – Montana Constitution, Article XI, Section 4; 17-6-606; 53-4-1011

Date Due – annual payments from settling entities due April 15th (Master Settlement Agreement, Chapter IX(c)), General Tobacco annual payments through calendar 2016 due August 30th (General Tobacco Adherence Agreement)

Applicable Tax Rate(s): NA

Distribution: Due to passage of Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate no less than 40 percent of tobacco settlement money to a permanent trust fund. For fiscal 2003, the remaining 60 percent of the money was deposited to the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the tobacco settlement money funds tobacco prevention programs and 17 percent of the funds is used for the Children's Health Insurance Program. The remaining 11 percent of the money is deposited to the general fund.

Distribution Chart:



Tobacco Trust Interest

Revenue Description: Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Due to passage of Initiative 146 by the electorate in November 2002, 32 percent of the tobacco settlement money is to fund tobacco prevention and 17 percent is to fund the Children's Health Insurance Program. As amended in SB 485 by the 2003 legislature, money from these allocations can also be used to fund human services programs and to match federal Medicaid funds through fiscal 2005. The remaining 11 percent of the money is deposited to the general fund. Interest earnings from the trust can only be used for tobacco disease prevention programs and programs providing benefits, services, or coverage that are related to the health care needs of Montanans. The earnings cannot be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999, providing benefits, services, or coverage of the health care needs of Montanans.

Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article XII, Section 4; 17-6-601; 17-6-603

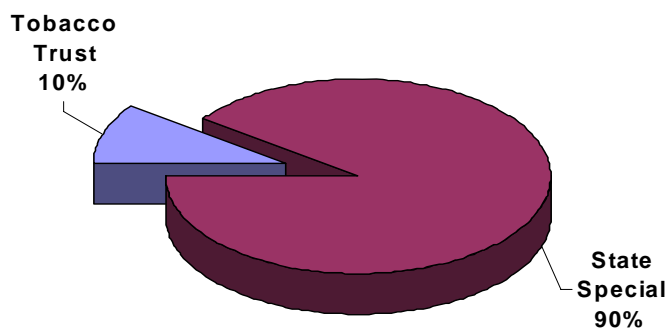
Date Due – Interest deposits are mostly made monthly, but none in July and two in June

Applicable Tax Rate(s): NA

Distribution: Interest earnings from the trust fund are distributed:

1. 90 percent to a state special revenue account for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10 percent to the tobacco settlement trust fund.

Distribution Chart:

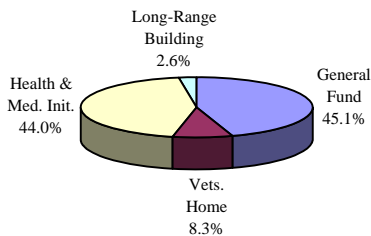


Cigarette & Tobacco Taxes, Master Settlement Funds, Tobacco Trust Interest - Revenue Distribution Matrix

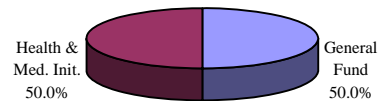
Revenue Source	01100 General Fund	02008 Tribal Agreement	02260 Vets. Home	02772 Health & Med. Init.	02789 CHIP / MCHA	02790 Cessation / Prevention	02987 Health Care Need	05007 Long-Range Building	09048 Tobacco Trust
Cigarette Tax *	45.1%	Agreement	8.3%	44.0%				2.6%	
Tobacco Tax *	50.0%	Agreement		50.0%					
Master Settlement	11.0%				17.0%	32.0%			40.0%
Trust Interest							90.0%		10.0%

* Percentages are applied after distributions to Tribal governments.

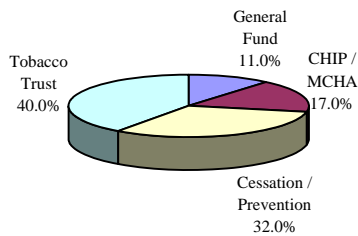
**Cigarette Tax Distribution
After Tribal Payments**



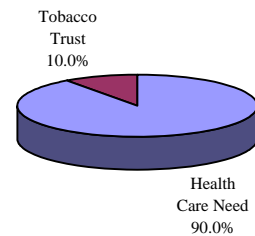
**Tobacco Tax Distribution
After Tribal Payments**



Master Settlement Distribution

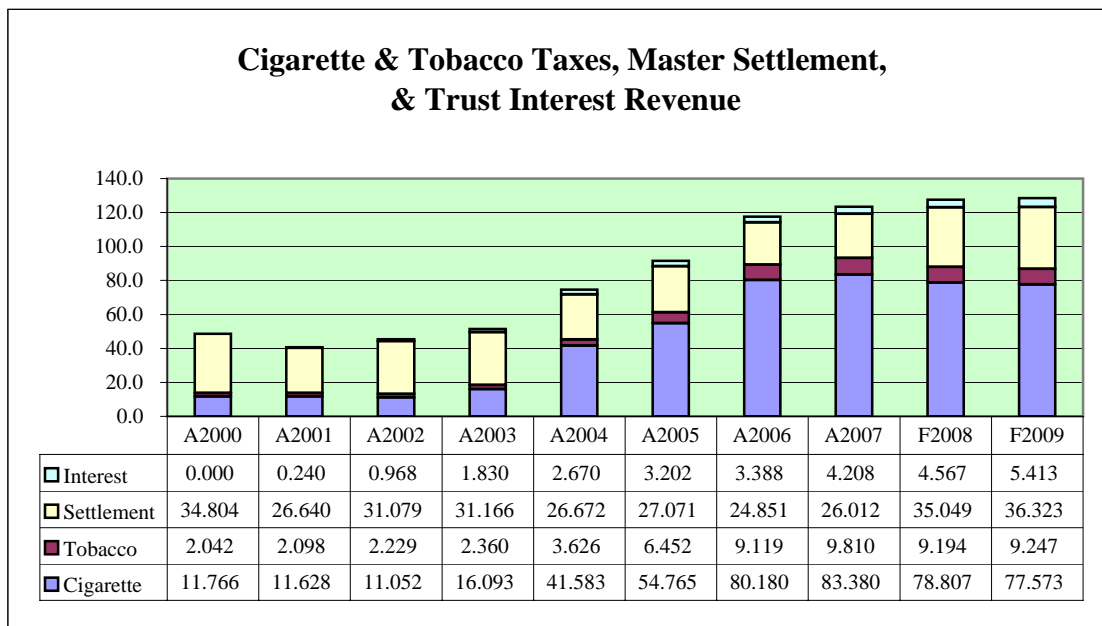


Tobacco Trust Interest Distribution



Cigarette & Tobacco Taxes, Master Settlement Funds, Tobacco Trust Interest - Revenue

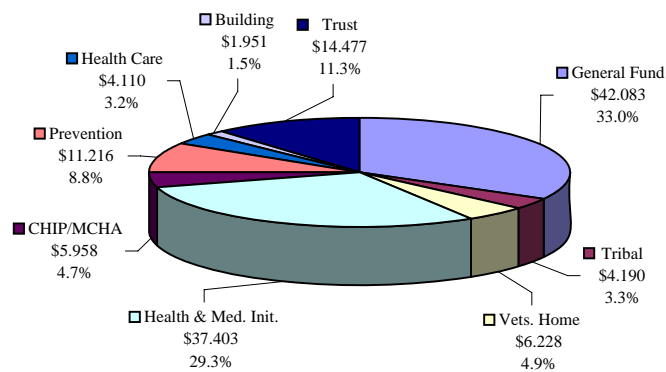
	Fiscal Year	Cigarette Tax	Tobacco Tax	Total Taxes	Tobacco Settlement	Trust Interest	Total Revenue
A	2000	11,766,271	2,042,241	13,808,512	34,804,411	0	48,612,923
A	2001	11,628,458	2,097,590	13,726,048	26,639,851	239,625	40,605,524
A	2002	11,052,174	2,228,524	13,280,698	31,079,018	967,687	45,327,403
A	2003	16,093,023	2,360,471	18,453,494	31,166,018	1,830,214	51,449,726
A	2004	41,582,823	3,625,893	45,208,716	26,672,073	2,669,829	74,550,618
A	2005	54,765,356	6,452,429	61,217,785	27,070,703	3,202,337	91,490,825
A	2006	80,180,236	9,118,757	89,298,993	24,851,033	3,387,527	117,537,553
A	2007	83,380,418	9,810,138	93,190,556	26,011,509	4,208,268	123,410,333
F	2008	78,807,000	9,194,000	88,001,000	35,049,000	4,567,000	127,617,000
F	2009	77,573,000	9,247,000	86,820,000	36,323,000	5,413,000	128,556,000



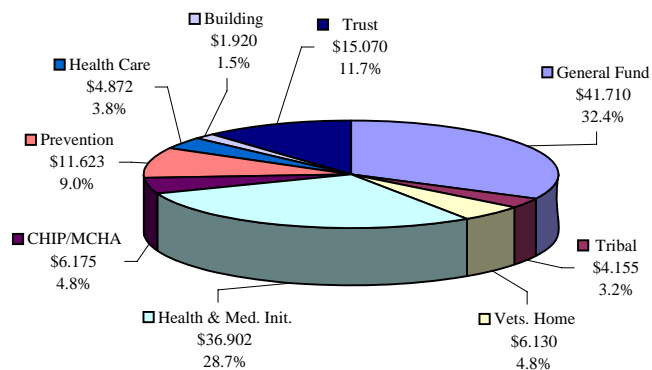
Cigarette & Tobacco Taxes, Master Settlement Funds, Tobacco Trust Interest - Revenue Distribution By Fund

Fiscal Year	01100 General Fund	02008 Tribal Agreement	02260 Vets. Home	02772 Health & Med. Init.	02789 CHIP / MCHA	02790 Cessation / Prevention	02987 Health Care Need	05007 Long-Range Building	09048 Tobacco Trust	Total Revenue
A 2000	45,285,002	203,825	1,287,414	0	0	0	0	1,836,680	0	48,612,921
A 2001	26,321,817	335,335	1,260,176	0	0	0	215,662	1,797,821	10,674,712	40,605,523
A 2002	28,717,140	299,813	1,199,664	0	0	0	870,918	1,711,492	12,528,376	45,327,403
A 2003	33,580,449	341,795	1,554,476	0	0	0	1,647,192	1,676,385	12,649,429	51,449,726
A 2004	42,497,003	460,589	3,417,612	0	4,534,252	8,535,063	2,402,846	1,767,440	10,935,812	74,550,617
A 2005	42,118,642	929,009	4,475,646	14,836,318	4,602,020	8,662,625	2,882,104	1,835,947	11,148,515	91,490,826
A 2006	41,666,585	3,920,514	6,362,659	38,089,726	4,224,676	7,952,330	3,048,774	1,993,123	10,279,166	117,537,553
A 2007	43,360,825	4,405,778	6,593,978	39,625,657	4,421,956	8,323,683	3,787,441	2,065,585	10,825,430	123,410,333
F 2008	42,083,000	4,190,000	6,228,000	37,403,000	5,958,000	11,216,000	4,110,300	1,951,000	14,476,700	127,616,000
F 2009	41,710,000	4,155,000	6,130,000	36,902,000	6,175,000	11,623,000	4,871,700	1,920,000	15,070,300	128,557,000

Total Revenue Distribution - Fiscal 2008



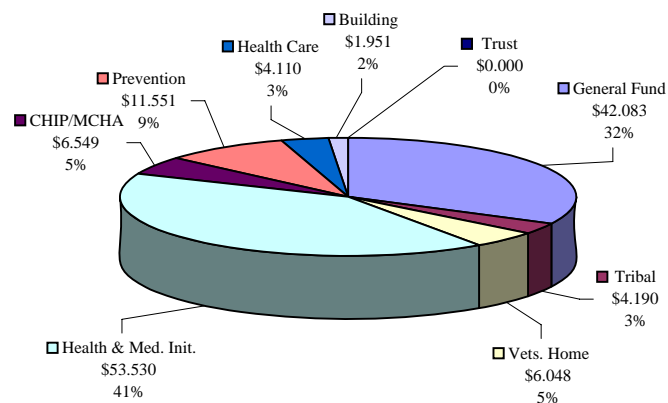
Total Revenue Distribution - Fiscal 2009



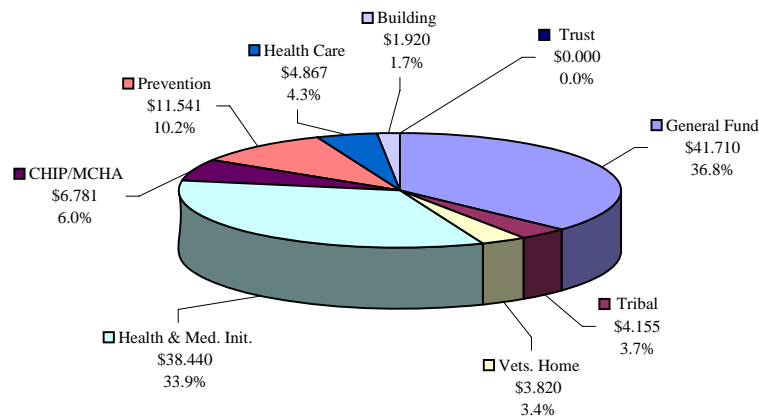
Cigarette & Tobacco Taxes, Master Settlement Funds, Tobacco Trust Interest - Expenditures/Appropriations By Fund

Fiscal Year	01100 General Fund	02008 Tribal Agreement	02260 Vets. Home	02772 Health & Med. Init.	02789 CHIP / MCHA	02790 Cessation / Prevention	02987 Health Care Need	05007 Long-Range Building	09048 Tobacco Trust	Total Expenditures
A 2000	45,285,002	203,825	1,216,513	0	0	0	0	1,836,680	0	48,542,020
A 2001	26,321,817	407,913	1,657,495	0	0	0	0	1,797,821	0	30,185,046
A 2002	28,717,140	299,813	2,247,027	0	0	0	1,086,579	1,711,492	0	34,062,051
A 2003	33,580,449	341,795	1,349,110	0	0	0	1,647,192	1,676,385	0	38,594,931
A 2004	42,497,003	460,589	3,749,549	0	4,546,898	8,365,420	2,402,846	1,767,440	0	63,789,745
A 2005	42,118,642	929,009	4,353,732	0	4,590,534	8,832,269	2,882,103	1,835,947	0	65,542,236
A 2006	41,666,585	4,051,590	6,400,098	14,281,266	3,716,880	6,760,842	3,048,774	1,993,123	0	81,919,158
A 2007	43,360,825	4,405,778	6,430,176	34,896,422	3,685,384	6,674,510	3,787,441	2,065,585	0	105,306,121
F 2008	42,083,000	4,190,000	6,047,996	53,530,254	6,549,109	11,550,873	4,110,300	1,951,000	0	130,012,532
F 2009	41,710,000	4,155,000	3,820,328	38,440,298	6,781,050	11,540,994	4,867,212	1,920,000	0	113,234,882

Total Budgeted Expenditures - Fiscal 2008



Total Budgeted Expenditures - Fiscal 2009





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State Cigarette Excise Taxes: 2007



Cigarette excise tax facts

- The federal cigarette excise tax is \$0.39 (as of January 1, 2006).
- At least ten states, Alaska, Arizona, California, Colorado, Maryland, Massachusetts, Michigan, Oklahoma, Oregon and Utah, use cigarette excise tax revenue to fund their tobacco control programs.
- The U.S. Center for Disease Control & Prevention estimates that smoking-caused health costs total \$7.18 per packed sold and consumed in the United States.
- According to the CDC, for 1997-2001, cigarette smoking was estimated to be responsible for \$167 billion in annual health-related economic losses in the United States (\$75 billion in direct cost and \$92 billion in lost productivity), or about \$3,701 per adult smoker.
- Adolescents and young adults are more responsive than adults to changes in cigarette prices.
- Increasing a cigarette excise tax can result in stockpiling of cigarettes prior to the implementation of the tax and a temporary drop in sales immediately following the tax increase.

Cigarette Excise Tax Rates (in \$) and State Ranking As of March 2007				
New Jersey	2.58		Illinois	0.98
Rhode Island	2.46		New Mexico	0.91
Washington	2.025		California	0.87
Michigan	2.00		Colorado	0.84
Arizona ²	2.00		Nevada	0.80
Maine	2.00		New Hampshire	0.80
Alaska ¹	1.80		Kansas	0.79
Vermont ⁵	1.79		Wisconsin	0.77
Northern Marianas	1.75		Utah	0.695
Montana	1.70		Nebraska	0.64
Hawaii ³	1.60		Wyoming	0.60
South Dakota	1.53		Arkansas	0.59
Massachusetts	1.51		Idaho	0.57
Connecticut	1.51		Indiana	0.555
New York	1.50		Delaware	0.55
Minnesota ⁴	1.493		West Virginia	0.55
Texas	1.41		North Dakota	0.55
Iowa	1.36		Alabama	0.425
Pennsylvania	1.35		Georgia	0.37
Ohio	1.25		Louisiana	0.36
Puerto Rico	1.23		North Carolina	0.35
Oregon	1.18		Florida	0.339
Oklahoma	1.03		Kentucky	0.30
Guam	1.00		Virginia	0.30
Maryland	1.00		Tennessee	0.20
D.C.	1.00		Mississippi	0.18
			Missouri	0.17
			South Carolina	0.07

Sources:

NCSL Staff Research, March 2007.

Campaign for Tobacco-Free Kids, State Cigarette Excise Tax Rates & Rankings, March, 2007.

Federation of Tax Administrators, State Excise Tax Rates on Cigarettes. January 2007.

State Legislated Actions on Tobacco Issues: 2005; The American Lung Association.

Centers for Disease Control and Prevention, *Fact Sheet: Economic Facts About U.S. Tobacco Use and Tobacco Production*. Updated March 2007

Reducing Tobacco Use: A Report of the Surgeon General, Department of Health and Human Services; Office of Smoking and Health; Centers for Disease Control and Prevention, 2000.

Footnotes:

1. Additional \$0.20 increase effective 7/1/07.

2. Effective 5/1/07.

3. Additional \$0.20 each year until 2011.

4. Includes \$0.75 Health Impact fee.

5. Additional \$0.20 increase effective in 7/1/07.